

The Government will also need to alter the regulations governing the hiring of education staff and reform the bylaws regulating class sizes and teaching norms.

88. In principle, wage restraint could be a source of future savings in the education sector. Firm conclusions cannot be reached without better data, however. At this time, there is no evidence that wages are any higher than necessary to attract and retain qualified staff. Nor is there any evidence to the contrary—i.e., that wages could be lowered without generating recruitment and retention problems.

89. In any case, significant restraints in wage levels, even if warranted, may be difficult to achieve. Education staff belongs to unions that have been very successful in achieving real wage increases in the past. The Government negotiates wage agreements with the three education unions on an annual basis. The December 2007 protocol, covering wage increases for 2008, called for five percent increases in March, September and October, respectively. The figure applied to all educational staff, both teaching and non-teaching. An additional increase was granted to non-teaching staff in order to narrow the gap between teaching and non-teaching staff. Based on expected rates of inflation for 2008, this represents a real increase of nearly seven percent.⁴¹ There is some risk, in fact, that any savings derived from network rationalization will be exhausted on wage increases. Recent salary-setting negotiations between education trade unions and the government explicitly link the two: the unions were willing to accept downsizing only if it is tied to wage increases. While the economic crisis has temporarily changed the content for wage negotiations, the Government may find it difficult to restrain future wage increases once the economy recovers.

SOCIAL ASSISTANCE

90. Serbia spends relatively little on social assistance. Of the little that is spent, less than one quarter is specifically targeted to poor households. The two poverty targeted programs—the MOP and the child allowance—are nevertheless well designed although under-funded. As the recession is likely to increase the number of need.

SERBIA'S SYSTEM OF SOCIAL ASSISTANCE

Serbia operates over 20 social assistance programs, with multiple social objectives. Broadly, the objectives of the programs can be divided into three groups: (1) poverty reduction; (2) population growth, and (3) assistance to vulnerable groups such as veterans and the disabled. Different programs pursue these objectives to various degrees. Serbia has only one explicit anti-poverty program—the means-tested Material Support for Low Income Households (MOP) program. But it also means-tests other programs

⁴¹ In any event, the final increase, stipulated in the December 2007 protocol and set for October 2008, was conditioned upon network rationalization. As this did not occur, the final increase was suspended until further negotiations between the Ministry of Education and the three teacher unions were completed.

such as the pro-natalist child allowance. Other programs—such as aid to veterans and people with disabilities—are categorical and not explicitly means tested, but may have positive distributional impacts due to the characteristics of their recipients. Pensions, discussed earlier in this report, have a particularly significant positive impact on poverty.

91. Overall, Serbia spends relatively little on social assistance. (Table 9.) Spending as a whole averaged less than two percent of GDP in the 2005-2009 period. As a share of GDP, this is lower than the average spending in the OECD (2.5 percent, 2006) and in the EU countries (2.5 percent, 2006), and comparable with the spending of ECA countries with similar level of economic development. Compared to the countries of former Yugoslavia, where the non-contributory benefits have similar structure and objectives, Serbia spends slightly more than Macedonia and Croatia, and less than Bosnia and Herzegovina. Spending on programs targeted to the poor is particularly low. As of 2008, only 7 percent of social spending was allocated to the MOP, with another close to 16 percent allocated to the child allowance program. Together, spending on the two programs equaled only 0.44 percent of GDP, a figure far below the level of the majority of ECA countries. Although public outlays on social assistance programs as a whole have increased as share of GDP, from 1.3 percent of GDP in 2006 to 1.8 percent in 2008, allocations for the MOP and child allowances have declined. Spending on child allowances was cut down from 0.42 percent of GDP (2005) to 0.3 percent of GDP (2008) and the spending on MOP, from 0.16 percent of GDP to 0.14 percent of GDP, over the same period.

Table 9: Spending on Non-Contributory Social Assistance and Child Benefits and Services in Serbia, 2005-2009 (RSD mn)

Programs	2005	2006	2007	2008	Budget for 2009
Major Means Tested Programs					
• MOP	2216	2660	3005	3675	4034
• Child allowance	7132	8512	7689	8127	8243
Non-Means tested programs					
• Veterans benefits	9919	11500	12658	15106	16200
• Wage compensations for mothers on maternity leave	6885	8895	11062	13560	14945
• Caregivers allowance	1393	1867	3967	5106	5640
• Parental allowance/birth grant	3199	2222	3069	4118	4397
• Foster care	374	476	648	937	1100
• Social work	995	1238	1384	1485	1686
Total	32113	37370	43482	52114	56245

Source: Ministry of Finance of Serbia and Ministry of Labor and Social Policy of Serbia.

92. There are two reasons for this trend. First, Serbia's rapid economic growth over the last decade has reduced poverty levels significantly--from 13.4 percent in 2002 to 6.6 percent in 2007⁴²--thereby reducing the number of potential beneficiaries. Second,

⁴² Living Standards Measurement Study. Serbia 2002-2007.

legislative changes restrained the scope of social assistance benefits and the number of eligible beneficiaries. This was accomplished through two major items of legislation: the Law on Financial Support for Families with Children, enacted in mid-2002 and amended in 2005, and the Law on Social Protection and Provision of Social Safety to Citizens, amended in September 2004.⁴³

93. As described in Box 4, the laws consolidated and rationalized the existing range of social programs, abolishing regional differences in benefit levels and strengthening means testing. Several provisions, nevertheless, tended to reduce benefit levels. The threshold for MOP eligibility tended to exclude large households.⁴⁴ The shift from wages to cost-of-living as the basis for indexing eligibility thresholds also tended to reduce the number of beneficiaries—at least at a time when wages were rising faster than inflation. And in 2005, the access for working age able-bodied persons to the MOP was restricted to 9 months in one calendar year. The introduction of changes in the child allowance brought an immediate reduction of the number of eligible beneficiaries by 200,000 or 30 percent - from 682,000 monthly average for January-May 2002 (before the introduction of the law) to 482,000 average for July-December 2002, and to a steady though more modest reduction thereafter to 405,000 beneficiaries in 2008.⁴⁵

94. As a whole, Serbia's non-contributory social programs nevertheless appear to be fairly well targeted, in the sense that the majority of benefits go to the poor. Over 54 percent of all benefits go to those in the poorest quintile of Serbia's population (Serbia HBS 2006). By the same token, 46 percent of the beneficiaries of these programs belong to the poorest 20 percent of the population, and close to 70 percent of them, to the bottom 40 percent of the population. The targeting of the MOP program is particularly good, with over 60 percent of benefits going to families in the poorest quintile and to the extreme poor⁴⁶. This compares favorably with child allowances, for which the poorest quintile receives 48 percent of total benefits and the poor receive 50 percent. Coverage is an issue, however: only 7.5 percent of the poorest quintile and 27 percent of the extreme poor receive benefits from the MOP program. Coverage of the child allowance is slightly better: 22 percent of the poorest quintile and 36 percent of the extreme poor receive it.

⁴³ According to an impact analysis of the Center for Liberal-Democratic Studies in Serbia, two thirds of the reduction of child allowance recipients should be attributed to the increase in family incomes and assets, and one third to the program design changes. Source: Matkovic, Gordana and Bosko Mijatovic. Impact Analysis of Government Financial Assistance for the Poor, CLDC, 2008 (mimeo).

⁴⁴ The minimum income required for eligibility declines substantially with increases in the number of family / household members. For a one-person household it is 16 percent of the average wage, for two-member household - 22 percent, for three-member household - 28 percent, for four-member household - 30 percent, and a maximum of 32 percent when the household consists of five or more members.

⁴⁵ Matkovic, Gordana and Bosko Mijatovic. Impact Analysis of Government Financial Assistance for the Poor, CLDC, 2008 (mimeo).

⁴⁶ The 2006 HBS does not single out household/family income from MOP. For that reason, a proxy (broader) social benefit income category has been used to assess the coverage and targeting of the MOP, and the data should be treated with some caution.

95. The level of benefits is relatively generous for those who manage to receive them. Social assistance benefits constitute 23 percent of the consumption of the poorest

Box 4: Amendments to the Social Assistance Legislation in Serbia in 2002 – 2005

The *Law on Financial Support for Families with Children* was enacted in mid-2002 and amended in 2005. The law:

- introduced differentiation between the social policy / poverty alleviation objectives of certain child benefits on one hand and the demographic / population policy objectives of other part of the benefits for children;
- consolidated the numerous previously existing child benefits into three main programs: (a) a means-tested monthly child allowance with a social assistance objective; (b) a birth grant for the first four children; and (c) a wage compensation program for new mothers who have worked for at least 3 months before taking maternity leave;
- abolished the regional and municipal differences in the criteria for access to child protection and the regional / municipal differences of the paid benefits and introduced ‘centralized’ / national criteria and nation-wide benefit levels thus improving the targeting to the poor in the municipalities with relatively higher poverty rates;
- strengthened the means test by adding a test for assets to the existing income test;
- changed the base for indexing the eligibility thresholds and benefit levels from average wage growth to the more slowly increasing cost of living index, and replaced the monthly indexations with by-yearly adjustments (as of April 1 and October 1);
- abolished the categorical entitlement to child allowance for the third and each subsequent child (before the means test was applied only for the first two children);
- introduced a means test for the allowance for the first four children and limited the allowance entitlement to the first four children in the family only; and
- linked the provision of the child allowance to school attendance for the children of school.

The *Law on Social Protection and Provision of Social Safety to Citizens* was amended in September 2004. The amendments resulted in design changes to the program for material support (MOP) with cost containment impact. Under the law,

- the regional and municipal differences in the criteria for access to MOP were abolished and substituted with a uniform national poverty line (access threshold);
- similar to the child allowances, the indexation of the eligibility thresholds for the MOP shifted from the differentiated regional or municipal average wage growth rate to a national cost-of-living index. The MOP benefit levels, as well as the levels of all other social assistance transfers started to be indexed with the cost of living;
- the access to MOP for families where the majority of the members are able-bodied and of working-age, was reduced to 9 months in one calendar year to encourage resuming employment and prevent providing the benefit during the months of increased seasonal demand for informal employment when formal incomes become more feasible but hard to estimate and verify.

20 percent of the population. Generosity varies significantly across programs. Child allowances represent close to 12 percent of the consumption of the poorest 20 percent of households while MOP and caregivers allowances are much more generous, representing 47 percent and 65 percent of the incomes of those eligible for the benefit. . Social benefits are also generous for the extreme poor accounting for over 60 percent for their consumption.

DIRECTIONS FOR REFORM

96. **Prioritizing Spending:** With the projected slowdown in Serbia’s economy, levels of poverty are likely to increase, adding to the number of beneficiaries eligible for the MOP increasing demands for wider coverage. In responding to these demands, the Government would be well advised to **focus any increases in spending on programs that are most effective in targeting the poor, and freezing or limiting spending on other programs.** Two programs, in particular, are candidates for expansion.

97. **The first is the MOP.** The MOP is a last resort poverty gap program activated only when all other social protection mechanisms are ‘exhausted’ but the individual or household remains poor. Eligibility for MOP is determined by a means test taking into consideration all earnings of the household except those from other social benefit programs. The MOP eligibility threshold is determined as a percentage of the average wage and adjusted for household size with a steeply declining and same for children and adults equivalence scale.

98. As an anti-poverty program, the MOP is well targeted, in the sense that most benefits go to poor households. There is a strong case for scaling up the MOP and expanding the number of households eligible to receive it. In relative terms the spending on MOP is lower than similar spending in benchmark countries as the new EU member states. Even the ‘low spenders’ on targeted social assistance Poland, Latvia and Estonia spend more than Serbia (Table 10).

Table 10: Spending on Social Protection in Serbia and EU New Member States
(% of GDP)

Country	Total social protection	Pensions	Family and child benefits	Targeted social assistance	Disability benefits
Latvia	12.6	6.1	1.3	0.2	1.2
Lithuania	13.3	6.1	1.1	0.3	1.3
Serbia (2008)	13.4	11.4	1.0	0.14	0.8*
Estonia	13.4	5.8	1.7	0.2	1.2
Romania	14.9	5.6	1.6	0.6	1.0
Slovakia	17.2	6.6	1.8	0.5	1.6
Czech Republic	19.6	7.8	1.6	0.6	1.5
Poland	20.0	11.6	0.9	0.2	2.3
Hungary	20.7	8.6	2.5	0.5	2.1
Slovenia	24.3	10.6	2.0	0.7	1.9

*War veteran benefits and caregivers benefits.

Source: MISSOC.

99. Expanding the number of beneficiaries could be accomplished in part by raising the income threshold for eligibility and/or relaxing the asset test. It can also be accomplished by simplifying application procedures and through more aggressive outreach. There is anecdotal evidence that the poorest of the poor (mostly Roma and

IDPs) make limited use of the MOP and instead rely on one-time grants from their respective municipalities. This is in part because eligibility documents are often issued for a fee set at the local level which is not affordable for the poorest;⁴⁷ people who migrate have no permanent address or cannot provide certain documents and cannot meet the eligibility criteria; or the approach to identifying beneficiaries is passive: social workers rely mostly on demand from applicants rather than undertaking active outreach with information dissemination and/or identification of potential beneficiaries. At present, the Centers for Social Work, which implement the MOP, are making efforts to reach potential beneficiaries and make sure that they understand how to apply for and receive assistance. These efforts should be supported. Finally, the MOP equivalence scale can be aligned with the good OECD practices to eliminate the bias towards single-member and small families and households.⁴⁸

100. **The second is the child allowance program.** The child allowance program is the social protection program for children from low- and low middle income families. It is means-tested and limited to the first four children in the family, aged 0-19. It is also conditional to school enrollment for those after age 7.⁴⁹ As is the case with the MOP, the level of benefits is low. Eligibility is limited to families in which the income per family member is less than 20 percent of the average monthly wage, i.e. only marginally higher than the access threshold for the MOP. The average amount of the child allowances is quite low: around 5 percent of the average wage.

101. As in the case of the MOP, there is a strong case for maintaining the child allowance at least its existing level of funding and for addressing administrative barriers that prevent eligible households from accessing it. According to MLSP administrative data, around 20 percent of the children of MOP beneficiaries (i.e., the poorest households) do not receive the child allowance, partly due to a lack of evidence of enrollment in school. Verifying regularly school attendance might help identify the barriers which poor children face and thus increase the number of eligible beneficiaries.

102. Several other social programs are less effective in addressing poverty. While the government's pro-natalist policies and the special status of certain constituents (such as veterans) may justify the continuation of these programs, the case for an expansion in funding is less compelling. In some cases, improvements in targeting may be justified.

⁴⁷ The central government itself does not charge poor households for documentation fees.

⁴⁸ The MOP equivalence scale is implicit (the MOP due amount is determined in nominal terms per family/household depending on the number of its members) and varies across years. For example, in 2009, a two-member household/family is receiving 1.37 of the MOP amount for one member family/household; three-member – 1.75; four-member – 1.87 and five-member – 2 times the MOP for a single-member family or household. Moreover, in the case of families with more than five members, the MOP amount is 'capped' at 2 times the MOP for a single member household/family.

⁴⁹ In parallel, the law provides for enhanced access to child allowances for certain categories of vulnerable children - children of single parents, children in need of special care, children in foster care and guardianship, by increasing the eligibility threshold for them by 20 percent of the standards one and by increasing of the extended benefit by 30 percent. As a result their share increased from 8 percent of all beneficiaries in 2001, to 14 percent in 2008 (administrative data).

103. **Wage compensation during maternity.** The program for wage compensation (paid leave) during maternity accounts for a large share (26 percent) of overall spending on social programs in 2008, although it accounts for only 0.5 percent of GDP. The wage compensation is paid by the employer, who is compensated for this purpose (reimbursed) by the MLSP. Eligibility extends to working mothers in both the public and private sectors, including the self-employed. The benefits last for one year in the case of the first and second child, and two years for the third and fourth child. The size of the compensation is based on the salary received by the individual in the month prior to maternity and upon length of service: mothers with up to 3 months of work qualify for 30 percent of their gross wage; those with record of 3 to 6 months – for 60 percent of their gross wage and those with more than 6 months of work record – for 100 percent of their gross wage. The maximum benefit is capped at five average monthly salaries.

104. This benefit is generous relative to similar types of compensation in the countries of the European Union, including the new member states from Central and Eastern Europe, where most such benefits are financed from insurance contributions, as indicated in Table 11, implying a close link between wage and benefit funding source. Maternity benefits (paid leave) in these countries are generally shorter (with a maximum of one year) and the rate of compensation is generally lower, starting at less than 100 percent of the wage and in some countries declining over time to encourage mothers to return to work.

Table 11: Sources of Financing of Cash Maternity Benefits in the EU Member States

From global insurance contribution	From a separate maternity and sickness fund	From earmarked maternity fund	From public health insurance tax	Other models
Belgium Spain Cyprus Malta Portugal United Kingdom Estonia	Slovenia Germany France Italy Austria Romania Bulgaria	Czech Republic Latvia Lithuania Poland Slovakia Luxemburg Greece	Denmark Hungary	The Netherlands – unemployment fund (earning security insurance) Finland – fund for sick leave Sweden – fund for sick leave

Source: MISSOC, 2008.

105. In terms of its distributional implications, the wage compensation during maternity is regressive: higher share of the transfer reaches the non-poor than the poor. As the benefit is based on the employee's exit salary, higher benefits accrue to women with higher salaries. As a result, in 2007, benefits received in non-poor households were

by 43 percent higher than those received in poor households.⁵⁰ The rules of the program also potentially allow abuse of the system because the benefit is: (i) paid by the Government rather than the employer; and (ii) based on the employee's salary in her last month of employment, which could be inflated.

106. These flaws could be addressed without radically altering the program. Its perverse distributional implications could be addressed by lowering the cap on the benefit from five average salaries to, for example, three average salaries. The incentive to fraud could be addressed by lengthening the period by which compensation is based from one month to, for example, three months. There is also a case for reducing the overall cost of the program by approximating the duration and level of benefits to those more typical of other EU and Eastern European countries: i.e., three months to a maximum of one year, with a declining level of compensation over time.

107. Expenditures on military veteran benefits' also consume a relatively large share (29 percent) of social spending (2008). As shown in Table 12, veterans benefits include a wide range of individual components, and include payments to military personnel disabled during war or during peace, civilians who became disabled due to military conflicts and families of deceased soldiers. Currently, the state budget in Serbia provides such benefits for approximately 45,000 veterans, 27,000 of them military disabled during war or peace time, 3,000 civilian victims and 15,000 family members.

Table 12: Spending by Types of Veteran Benefits in 2009

Type of veteran benefit	Budget for 2009 (million RSD)
Total	16,200
Benefits for military veterans, o/w	13,988
Cash compensations for military disabled	230
Personal compensation for disability acquired at war paid by post offices	11,018
Personal compensation for disability acquired at war paid through the municipalities	2,390
Wage subsidies for working veterans	177
Cash payments to military veterans living abroad	98
Yearly compensations	52
Other compensations for military veterans	23
Benefits for civilians who have acquired disability at war	948

Source: Ministry of Finance, 2009 budget.

108. MLSP is considering a reform in the system of veterans benefits. A new law is under preparation. It will be critical to calculate the cost of any reforms before the law is enacted, in order to ensure that they are affordable under the current economic circumstances. Some savings could be achieved by establishing an electronic registry and data management system to verify eligibility under each program. In principle, benefits paid to dependent family members could be means-tested. Any savings arising from

⁵⁰ Living Standards Measurement Study. Serbia 2002-2007.

reducing such benefits would presumably not be worth the political expense of doing so. No changes in veterans benefits are therefore recommended.

109. The same is true of the birth grant which has a strictly pro-natalist objective. It provides a grant for each child, with the amount increasing steeply with each additional offspring. The grant for a second child is four times higher than that for the first; the grant for the third, 1.75 times that for the second; the fourth 1.35 times that for the third. Although the objective of this grant could be questioned, it is relatively cheap. Overall, birth grants account for eight percent of social spending and only 0.15 percent of GDP (2008). It is therefore recommended that the birth grant be maintained at its current level.

110. The caregivers allowance targets people with disabilities. It was received by 3.1 percent of households in 2007 and by 7.2 percent of the poor households.⁵¹ The program could benefit from some redesign: consolidating some of the small and narrowly targeted elements (e.g., allowances for specialized equipment, transportation, rehabilitation, communications, etc.) into one benefit which reflects the individual medical and social inclusion needs of the recipient, and linking benefits with social care and employment services. This should be on the agenda for medium-term reform. But in fiscal terms, reform is not urgent. The caregivers' allowance accounts for only about 10 percent of spending on social programs and 0.19 percent of GDP.

ENTERPRISE SUBSIDIES

111. Subsidies to enterprises (including farms) constitute a significant proportion of government expenditure in the current period. The five largest central government programs consumed about four percent the 2008 central government consolidated spending in 2008, based on 2008 budget execution data.⁵² But the subsidy regime is in transition. A large proportion of subsidies have been used to facilitate the process of privatization, financing severance payments for workers in state owned enterprises. With some exceptions, the privatization process has been largely completed, and the level of these subsidies can be expected to decline. Under the revised 2009 budget, a considerable volume of resources are committed to new equity investments. These represent part of the Government's economic stimulus efforts, and might be expected to decline. What will remain are of subsidies to SOEs that have been slow to privatize--particularly in the mining sector--subsidies to the railroad and to agriculture, and subsidies to certain classes of private firms---such as SMEs. In the current economic climate, there is also pressure to make soft loans to private firms in order to stimulate the economy.

⁵¹ Living Standards Measurement Study. Serbia 2002-2007.

⁵² These figures exclude a variety of smaller subsidy programs and implicit subsidies in the form of write-offs of uncollected taxes and social contributions from state owned enterprises. They also exclude subsidies from local governments to their respective enterprises, which are financed from local government's general budgets.